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Subcommittee on Domestic Monetary Policy

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Howard Lee, *Staff Director*

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STATEMENT OF

ADDITIONAL MATERIAL SUBMITTED FOR INCLUSION IN THE RECORD

THE BALANCED MONETARY POLICY ACT OF 1983

THURSDAY, JUNE 9, 1983

House of Representatives,
Subcommittee on Domestic Monetary Policy,
Committee on Banking, Finance and Urban Affairs,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:07 p.m. in room 2128, Rayburn House Office Building, Hon. Walter E. Fauntroy (chairman of the subcommittee) presiding.

Present: Representatives Fauntroy, Patman, Hansen, and Hiler.

Chairman Fauntroy. The subcommittee will come to order.

This afternoon we are privileged to have the opportunity to hear from one of the truly great leaders in the House, indeed in the entire Nation. Jim Wright over the many years that he has served in public office has always made his foremost objective the fulfillment of the hopes and aspirations of the American people. Today, he has come to address policies that threaten this American dream.

It is a dream that is couched in terms of sometimes arcane economic concepts; but it is a dream that is realized through the provision of jobs, educational opportunities, farms and businesses, homes and cars, and the gold years of retirement. That, really, is what economic policy is all about. Economic policy is not about GNP, interest rates, monetary aggregates, or bank credit. It is about having a job with prospects of improvement; about having a home and food to eat; about giving our children opportunities to prosper in the future. Ultimately, it is about the stability of our society, and whether we will have the capacity to share or whether we shall have the stronger prey upon the weaker. These are the reasons I sought the chairmanship of this subcommittee and these are the reasons that our majority leader is here today.

For the last three years, our economic policies generally and our monetary policy specifically have failed to focus upon the end products of what an economy is supposed to deliver—goods and services. We have focused instead upon something called supply-side economics to the detriment of food for the poor, housing for the elderly, and medical care for the sick. In our monetary policy, we have become captives of monetary aggregates to the detriment of interest rates, jobs, housing, and industrial growth. In directing economic policy, this subcommittee has a special responsibility for money and credit—how it is provided, how fast or slow it should grow, how payments should be made.

As part of that process we must assure ourselves that the mechanisms with which we oversee and direct the Federal Reserve are useful, meaningful, and nondestructive. We have held a number of hearings on this issue over the 30 months that I have chaired this subcommittee. We will hold even more. We will hear from every viewpoint and we will report a bill which encompasses the totality of the best thoughts we can glean from every sector of our Nation. It is our hope that we can do this by the end of this month.

Congressman Jim Wright has been one of the foremost proponents in the House of an approach which I very much want us to carefully consider and seek to integrate into our legislative thinking on this matter. The bill which he has developed would have the Federal Reserve include real interest rates among its targets. Real interest rates reflect the true cost of borrowing, after inflation is subtracted from nominal rates. If real interest rates are too low or negative, that encourages excessive borrowing and promotes inflation. If they are too high, that discourages investment, and contributes to unemployment. Real interest rate targets, if they can be developed in a form that the Fed can realistically achieve, could be extremely helpful in assuring that the Federal Reserve does what we want it to do, namely, promote stable growth, increased employment and reduced inflation.

This is a tall proposition that the majority leader has agreed to tackle. He is, however, more than equal to it, as we know from his prior appearances before this subcommittee. Once again, I welcome you to this subcommittee and I anxiously await your testimony.

[The full text of Chairman Fauntroy's opening statement and a news release, dated June 6, 1983, announcing the testimony of House Majority Leader Jim Wright before the subcommittee, follow:]

Opening Statement of Hon. Walter E. Fauntroy, Chairman, Subcommittee on Domestic Monetary Policy, Committee on Banking, Finance and Urban Affairs

The Subcommittee will come to order.

This afternoon we are privileged to have the opportunity to hear from one of the great leaders in this House. Jim Wright over the many years that he has served in public office has always made his foremost objective the fulfillment of the hopes and aspirations of the American people. Today, he has come to address policies that threaten this American dream.

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U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-EIGHTH CONGRESS
WASHINGTON, D.C. 20515

news release

MONDAY, JUNE 6, 1983
FOR IMMEDIATE RELEASE

contact: Howard Lee
Andrew Bartels
202-226-7315

HOUSE MAJORITY LEADER JIM WRIGHT TO TESTIFY ON MONETARY POLICY; REAL INTEREST RATE TARGETS SOUGHT

(WASHINGTON, D.C.) House Majority Leader Jim Wright (D.-Texas) will testify before the Subcommittee on Domestic Monetary Policy of the House Banking Committee on H.R. 2546, The Balanced Monetary Policy Act of 1983, Subcommittee Chairman Walter E. Fauntroy (D.-D.C.) announced today. This bill, which has been introduced by Mr. Wright, House Banking Committee Chairman Fernand St Germain, and more than a hundred co-sponsors, would have the Federal Reserve establish, report, and seek to achieve targets for real interest rates. Real interest rates are interest rates which have been adjusted for inflation. The hearing will be held at 2:00 P.M. on Thursday, June 9, 1983, in Room 2128 of the Rayburn House Office Building in Washington, D.C.

"For the last three years, as Majority Leader Wright has frequently noted, monetary policy has focussed upon controlling the growth of arbitrary monetary aggregates, to the detriment of interest rates, employment and the economy," Mr. Fauntroy said. "We must assure that the targets which Federal Reserve follows and reports are more meaningful and less destructive. One possibility is to have the Fed include real interest rates among its targets. Jim Wright has been one of the foremost leaders in developing this approach, which the Subcommittee intends to seriously consider. Real interest rates reflect the true cost of borrowing, after inflation is subtracted from nominal rates. If real interest rates are too low or even negative, as they were in the late 1970s, that will encourage excessive borrowing and promote inflation. But, if real interest rates are too high, as they are now, they will discourage necessary investment and spending and contribute to economic stagnation. Targets for real interest rates, if they can be developed so that the Fed can achieve them, could be a better alternative than monetary targets as a means of promoting stable growth, reduced inflation, and employment."

Chairman FAUNTROY. I welcome you, Congressman Wright, to this subcommittee. I look forward to your testimony.

I see we have a vote on the House floor now.

Mr. WRIGHT. Mr. Chairman, there is a vote. I didn't hear the announcement, I think it may be on final passage of the bill or maybe on an amendment.

Mr. PATMAN. As I understand the vote is on the motion by Mr. Brown of Colorado that the amendment specified for the Democrat and Republican parties be stricken from the allocation.

Mr. WRIGHT. So far as I am aware, and I inquired just before coming over, that it was 10 minutes ago the only remaining amendment to this bill. If there is any illusion on anybody's part that the majority leader sets the schedule around here, the timing of this vote should shatter that illusion.

Let me suggest that it might be beneficial for all of us if we were to go over and cast our votes and perhaps wait and see, if there are no other amendments the likelihood would be that there would be a vote on final passage, obviating a trip back and forth and then I would return, if that would be satisfactory to you, Mr. Chairman.

Chairman FAUNTROY. Without objection, we will recess until after the vote.

[Recess.]

Chairman FAUNTROY. The subcommittee hearing will resume at this time. I am pleased as I can be to recognize the distinguished leader of the House, Congressman Jim Wright.

STATEMENT OF HON. JIM WRIGHT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. WRIGHT. Thank you very much, Mr. Chairman. I appreciate the chance to come and visit with this subcommittee about the bills that are pending. As you are aware, I am one of the sponsors of H.R. 2546, which would impose certain directions upon the Federal Reserve Board and give to that Board a sense of clear congressional purpose.

I have been quite deeply concerned about the effect of high interest rates upon the economy for so long that I feel as I did sometimes when I was a boy—I know you will have a familiar reaction to this, Mr. Chairman.

We would sing in your church at the end of the service, "Just As I Am," and there were eight verses printed in the hymnal. I knew them all by memory because so many times, I had sung all eight of them, and if the minister had evoked no response from any wayward sinner to come forward during the eight, we would sing them again. Now, I feel as though I am on that eighth verse about the third time in an attempt to get something done in Congress to provide a sense of clear congressional purpose and direction to the Federal Reserve Board.

I was deeply distressed yesterday to read in the newspaper an account of a decision made Tuesday, and reported by the Associated Press throughout the Nation, in which the Government, for the first time in more than a year, is raising the interest rate ceiling on federally insured single-family home loans. That ceiling was raised on last Tuesday by another half a percentage point, going up

to 12 percent again. Conventional mortgage rates have risen to about 13.25 percent in the past few weeks.

If this presages another upward spiral in interest rates, I very much fear, Mr. Chairman, that it will spell the very absolute end of the little tentative recovery that all of us have hoped we were seeing set in motion. It is certainly clear that we cannot have a robust economic recovery with high interest rates.

In my opinion, the deep recession through which we have been going in the last couple of years did not have to happen. I think it was a man-made recession. I attribute the recession more than any other one thing to the decision by Mr. Volcker, in October of 1979, that he no longer would pursue the historic policy of the Federal Reserve Board to monitor two items.

One, was the interest rate, and the second was the money supply. But that he would concentrate solely and exclusively upon the money supply and let the interest rates float just as high as the biggest banks in the country would let them float. That to me was an abrogation of duty. I believe we in the Congress have a clear responsibility to make it unmistakable that we do not intend for that to happen again. On the contrary, I think we must bring interest rates down. Whatever it takes in the way of public policy for us in the Congress to assert our primacy over that responsibility which was given to us in the Constitution and to bring interest rates back to a liveable level, I think must be done.

What has happened as a result of the misbegotten policy of October 1979, has been the highest interest rates in American history, and it has brought on the second deepest depression in this century. It is beyond our power to overemphasize the negative effect upon people of high interest rates. It has spiraled inflation instead of curtailing it, in most instances, and in this case, there has been a reduction in the inflation rate because the economy ground to a halt. And you can always halt inflation by creating so deep a depression and a recession that people are all out of work, and they don't have money to buy goods and, therefore, the price of goods would go down. But more than any other one thing, the decline in the inflation rate, it seems to me, is attributable to the decline in the price of petroleum and the decline recently in the price of money. It seems tragic that the policy would be reversed at this point.

Let me just give you these statistics in order that we may appreciate how severely the change has affected interest rates. During the 20 years prior to the Volcker decision of October 1979, to abandon the responsibility to keep interest rates liveable, for those 20 years the prime rate averaged 6.5 percent. From 1959 to 1979 the prime rate averaged 6.5 percent. In the 2 years immediately following the 1979 policy, the prime rate averaged 16.8 percent.

Now, this has created severe economic distress not only in this country but throughout the world, and the participants in the Economic Summit at Williamsburg only a few days ago, declared: "We must focus on achieving and maintaining low inflation and reducing interest rates from their present too-high levels."

Let me repeat that again: "Reducing interest rates from their present too-high levels." Indeed they are too high.

In order that you may appreciate the effect that these high interest rates have had upon economic growth, I think it might be useful for us to examine some charts. I have handed out copies of these to members of the subcommittee.

[The charts referred to appear on pp. 15–17.]

On my left is a chart portraying real interest rates. At the present time, the real interest rate is about 6.5 percent, if we say that the current rate of inflation is about 4 percent and the prime rate is 10.5 percent. The real interest rate is the difference between the rate of inflation and the prime rate.

Now, if you will look back to 1961, and examine that 20-year period, you will see that the real interest rate, measured in the way I have just described, has always been below 3 percent until 1981; and that the real interest rate for the most part was more in the range of 2 percentage points. Now, it is 6.5-percent interest, the highest real interest rate in history and over the most sustained period of time.

On the other chart, we see the unavoidable, inescapable, inevitable result of that policy. This chart measures economic performance in real growth in the gross national product. You can see how that has averaged, over this period of time, somewhere in the 4-percent range. In the last 2 years, with those astronomical interest rates, it has been negative—it will happen every time.

What happens with high interest rates when they are allowed? For one thing, banks become terribly autocratic. I read an alarming thing the other day, in a newspaper about Citibank of New York. It doesn't want any small depositors. Can you imagine that? I will guarantee you a guy in Weatherford, Tex., cannot conceive of a bank being so arrogant that it announces that it doesn't want any small depositors.

Banks have been chartered by the Government of the United States to serve the public convenience and need. They haven't been chartered to serve their own selfish greedy purposes, but unfortunately, that has happened. What does it do to people? We have had in the last couple of years the biggest bankruptcy rate in small business that we have suffered since the depth of the Depression. Last year, one of the subcommittees of our House conducted hearings probing the reasons for the big increase in bankruptcies among small businesses. The theme that recurred in testimony by witness after witness, judges in bankruptcy and others who were close to the bankruptcy proceedings, was that the bankruptcies had been brought about by the enormous burden of debt created by high interest rates, under which the small businessman suffered and suffocated and simply could not breathe. It had reached the point that most of those businesses forced into bankruptcy had been suffering a situation in which as much as 70 percent of their cash flow, 70 percent of their gross sales had to be paid in interest, before they reduced the debt or carried on any of their activities. I don't know of any business that can survive in that kind of a climate.

I am particularly concerned, because of the effect that this return to increased interest rates will have on housing. I know a man who is trying to buy a new house. He has about a $70,000 mortgage on his present house. It was taken out about 5 years ago,

and on that mortgage he is paying 8.5-percent interest. He has arranged it so that he could move up and buy a little nicer house and still pay out on a $70,000 mortgage. He would have more equity and therefore, could achieve a nicer place for his family.

But he still would owe $70,000. Now, mark this: On the same amount of debt, the same amount of money owed, the mortgage he would have to take out today to finance that $70,000 debt will cost him about $340 more every month. It will cost him about $340 more every month just for the dubious privilege of owing the same amount of money. It doesn't buy him anything. He doesn't get anything for it. And of course when a fellow has to pay $4,000 or more a year in just excess burden with no benefits deriving from it, it drags him down as a consumer. It makes it more and more difficult for an average young couple ever to buy a house, it stymies the incipient revival of the home-building industry, it keeps people out of work, and ultimately it hurts everybody.

Even the person in business who would like to go and invest in some job-creating enterprise is discouraged from doing so when interest rates are so high. He can take whatever cash he may have available to him and put it in a certificate of deposit and get an assured return of maybe 10 percent, 9.5 percent, 11 percent. He isn't going to risk that and borrow more money when he doesn't see any climate conducive to economic growth, and when he is going to have to pay such an astronomical sum for the money he borrows.

It kills the economic viability of any expansionary program that he might put in motion to revive the economy. So, it hurts all the way around. It hurts the Government of the United States.

There is another chart that I have handed out to some of you, entitled "Some Ways to Lower the Federal Deficit." This is not intended as a program that this committee could undertake, it is just illustrative of some of the bigger things that could affect that deficit in a benign way.

I have indicated on the top part of the graph what effect would be had upon these deficits projected in Mr. Reagan's budget of $189 billion for 1984, and successive amounts for 1985 and 1986 if we were to do four things. The first one, the top portion, represents what would occur if we were to eliminate the third year of the tax cut. Over a 3-year period, the reduction would amount to a reduction of $98 billion in the deficits. Second, if we were to cap the third year at $700, which is what seems more likely, it would shave $23 billion off the deficits in 3 years. Third, if we should hold defense spending to 5 percent real growth, it will shave the President's budget deficit about $59 billion over 3 years.

The third line from the top, that runs horizontally across the page, represents the effect upon the budget of the United States if we were to see an interest rate decline of 2 percent. Thus the fourth thing is if interest rates across the board were to go down by 2 percent, and thus interest rates on long-term Government obligations were to go down by 2 percent, it would reduce the cost of Government or managing our debt in a 3-year period by an estimated $59 billion, the same that we can get by holding military growth at 5 percent. But, beyond that, it would create the conditions conducive to employment and if we were to bring unemployment down

by just 2 percent, just 2 percentage points below the Reagan budget projection. I don't mean necessarily to bring it back to the level enjoyed in the early sixties or early seventies—down to 5 or 6 percent—just bring it down 2 percentage points. Unemployment is over 10 percent now. Then that would save $148 billion in 3 years, and just about wipe out the deficit if you were to do those four things.

I am not suggesting that there is a magic way in which this committee could pass a bill and say, "We hereby decree that all interest rates go down 2 percentage points and that all unemployment goes down 2 percentage points," but we can certainly have a benign influence upon that, and it is to that end that I recommend that you take favorable action early on this bill so that we can bring it to the House floor and pass it. We had testimony on this legislation last year, but it was so late when we got around to doing anything in the committee that we never got it on the House floor and, of course, we can't do much with legislation unless you get through the committee and on to the House floor.

I encourage you in your efforts, urge you to proceed with all deliberate speed.

[The bill, H.R. 2546, and the charts referred to by Mr. Wright follow:]

I

98TH CONGRESS
1ST SESSION

H. R. 2546

To amend the Federal Reserve Act.

IN THE HOUSE OF REPRESENTATIVES

APRIL 13, 1983

Mr. ST GERMAIN (for himself, Mr. WRIGHT, Mr. FOLEY, Mr. ALEXANDER, Mr. MURTHA, Mr. FLIPPO, Mr. COELHO, Mr. PERKINS, Mr. DE LUGO, Mr. DASCHLE, Mr. HOWARD, Mr. BRYANT, Mr. DYMALLY, Mr. ROE, Mr. FRANK, Mr. BENNETT, Mr. ANDERSON, Mr. FROST, Mr. MURPHY, Mr. COYNE, Mr. RODINO, Mr. SMITH of Florida, Mr. ECKART, Mrs. KENNELLY, Mr. DORGAN, Mr. PATMAN, Mr. FASCELL, Mr. DOWDY of Mississippi, Mr. ANNUNZIO, Mr. GARCIA, Mr. SMITH of Iowa, Mr. VANDERGRIFF, Mr. NOWAK, Mr. DINGELL, Mr. WILSON, Mr. KOGOVSEK, Mr. BERMAN, Mr. MCNULTY, Mr. RATCHFORD, Mr. FORD of Michigan, Mr. HUGHES, Ms. KAPTUR, Ms. MIKULSKI, Mr. EDGAR, Mr. CORRADA, Mr. HANCE, Mr. TALLON, Mr. HUCKABY, Mr. HARRISON, Mr. HERTEL of Michigan, Mr. HUBBARD, Mr. FLORIO, Mr. WHEAT, Mr. ADDABBO, Mr. OWENS, Mr. WILLIAMS of Montana, Mr. CROCKETT, Mr. HARKIN, Mr. VENTO, Mr. RAHALL, Mrs. LLOYD, Mr. SUNIA, Mr. DWYER of New Jersey, Mr. LUNDINE, Mr. TORRES, Mr. GEJDENSON, Mr. MINISH, Mr. RICHARDSON, Mr. JONES of North Carolina, Mr. WON PAT, Mr. GUARINI, Mr. WISE, Mr. OTTINGER, Ms. OAKAR, Mr. KILDEE, Mr. PEPPER, Mr. DE LA GARZA, Mr. GLICKMAN, Mr. MAVROULES, Mr. EVANS of Illinois, Mr. ROSE, Mr. DYSON, Mr. LEHMAN of California, Mr. FOGLIETTA, Mr. HEFNER, Mr. BOUCHER, Mr. FEIGHAN, Mr. BONIOR of Michigan, Mr. ORTIZ, Mr. WASHINGTON, Mr. SEIBERLING, Mr. ANTHONY, Mr. WOLPE, Mr. SOLARZ, Mr. GORE, Mr. FAZIO, Mr. MINETA, Mr. BONER of Tennessee, Mr. WEISS, Mrs. SCHROEDER, Mr. BONKER, Mr. APPLEGATE, Mr. BEVILL, Mr. MITCHELL, Mr. LOWRY of Washington, and Mr. CONYERS) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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A BILL

To amend the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Balanced Monetary Policy Act of 1983".

SEC. 2. PURPOSES.—It is the purpose of this Act to insure that monetary policy is conducted in a way which assures both economic growth and stable prices. It is the further purpose of this Act to return predictability and stability to financial markets, thus providing for lower, more stable real rates of interest.

SEC. 3. (a) Section 2A of the Federal Reserve Act is amended—

(1) by inserting "(a)" after "SEC. 2A."; and

(2) by striking out all after the first sentence and inserting in lieu thereof the following: "In furtherance of these goals the Board of Governors and the Federal Open Market Committee of the Federal Reserve System shall establish yearly targets, consistent with economic growth and stable prices for money and total credit aggregates and for real interest rates consistent with historic levels.

"(b) The Board of Governors and the Federal Open Market Committee shall take such actions as are necessary to assure that these targets are achieved, on average, on an annual basis.

"(c) Nothing in this section shall be interpreted to require that these targets be achieved if the Board of Governors and the Federal Open Market Committee determine they cannot or should not be achieved because of changed economic conditions such as rapidly accelerating inflation or high unemployment, and if within ten days of making such determination, the Board transmits a written report to the committees of the Congress referred to in subsection (d) explaining the reasons for any revisions to or deviations from such targets and notifying the committees of the new targets and of the objectives and plans for meeting those targets.

"(d) In addition, the Board of Governors shall transmit to the Congress, not later than February 20 and July 20 of each year, independent written reports setting forth—

"(1) a review and analysis of recent developments affecting economic trends in the Nation;

"(2) the objectives and plans of the Board of Governors and the Federal Open Market Committee with respect to achieving its targets;

"(3) the relationship of the aforesaid objectives and plans to the pursuit of full employment, stable economic growth, low inflation, and affordable interest rates for productive sectors of the economy; and

"(4) the relationship of the aforesaid objectives and plans to the short-term goals set forth in the most

recent Economic Report of the President pursuant to section 3(a)(2)(A) of the Employment Act of 1946 and to any short-term goals approved by the Congress. As a part of its report on July 20 of each year, the Board of Governors shall include a statement of its objectives and plans with respect to its targets for the calendar year following the year in which the report is submitted. The reports and statements required under the two preceding sentences shall be transmitted to the Congress and shall be referred in the Senate to the Committee on Banking, Housing, and Urban Affairs, and in the House of Representatives to the Committee on Banking, Finance and Urban Affairs. The Board shall consult with each such committee on the reports and statements and, thereafter, each such committee shall submit to its respective body a report containing its views and recommendations with respect to the intended policies of the Board.

"(e) To promote order and stability in the financial markets and full information about economic conditions for all citizens, the Board of Governors shall publicly announce changes in objectives and plans at the times those changes are determined.

"(f) The President, as to each vote on monetary policy of the Board of Governors and the Federal Open Market

Committee of the Federal Reserve System, shall state for the Federal Reserve System's record the administration's position on such vote.".

(b) The amendment made by subsection (a) takes effect on enactment.

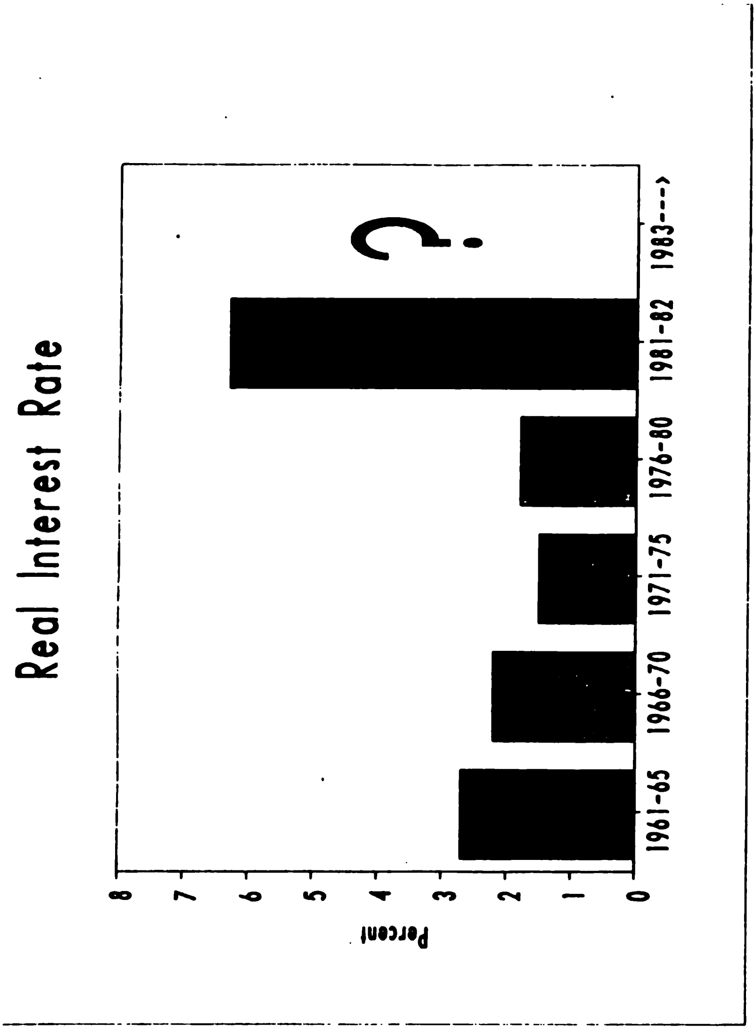
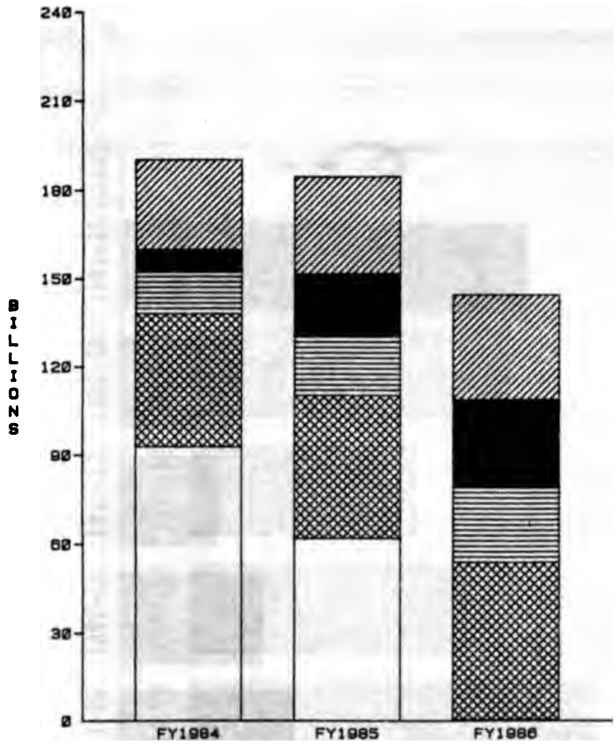

Real Interest Rate
Percent
0
1
2
3
4
5
6
7
8
1961-65
1966-70
1971-75
1976-80
1981-82
1983--->
?

Chart 6

SOME WAYS TO LOWER THE FEDERAL DEFICIT

BELOW LEVELS PROPOSED IN REAGAN BUDGETS



ELIMINATE THIRD YEAR OF TAX CUT=three-year reduction of $98 billion.
HOLD DEFENSE SPENDING TO 5% REAL GROWTH=$59 billion over 3 years.
INTEREST RATE DECLINE OF 2%=$59 billion over 3 years.
UNEMPLOYMENT DECLINE OF 2%=$148 billion over 3 years.
RESULTING DEFICIT

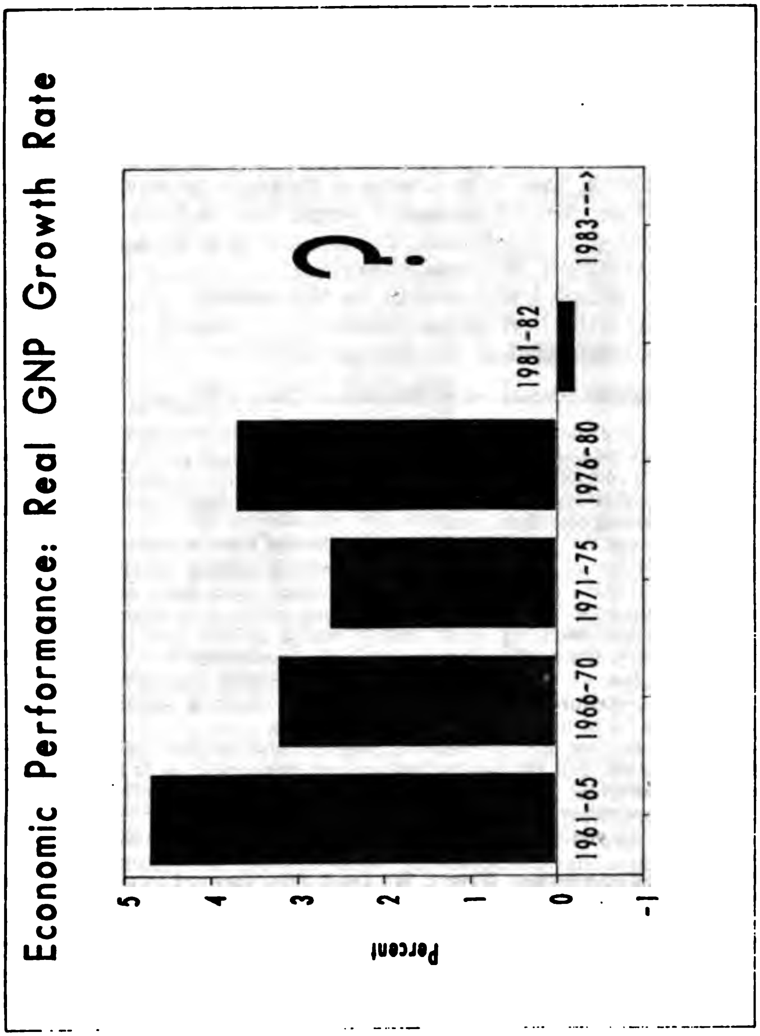

Economic Performance: Real GNP Growth Rate
Percent
5
4
3
2
1
0
-1
1961-65
1966-70
1971-75
1976-80
1981-82
1983--->
?

Chart 7

Chairman FAUNTROY. I thank you, Mr. Majority Leader.

We have been joined by the distinguished ranking member of the subcommittee, the gentleman from Idaho, Mr. Hansen.

Mr. HANSEN. Thank you, Mr. Chairman. I appreciate being here in time to hear the remarks of the distinguished gentleman, who is always profound and very capable of expounding those things that are of the moment of the day, and in a way that makes us all have to pause and think, and it is always a pleasure to have you here.

I might mention, Mr. Chairman, I would like to have an opening statement included, and ask unanimous consent to do so.

Chairman FAUNTROY. Without objection.

Mr. HANSEN. Which I will submit for the record.

Chairman FAUNTROY. Without objection, so ordered.

[The opening statement of Mr. Hansen follows:]

OPENING STATEMENT BY HONORABLE GEORGE HANSEN

Thank you Mr. Chairman. I too, want to welcome the Majority Leader, Congressman Wright, to this hearing on a bill in which he has taken so much personal interest and which he is co-sponsoring with Chairman St Germain of the House Banking Committee. Given this kind of sponsorship the proposed legislation obviously deserves our most careful consideration.

While we all recognize that this bill had once before been introduced during the 97th Congress, I confess being somewhat puzzled why it is being reintroduced at this particular time. Inflation is down sharply and interest rates have declined significantly since last summer. There is moreover, strong evidence of recovery. Even unemployment has been declining while nearly half a million new jobs have been filled since February. Given these encouraging circumstances, it is surprising that our colleagues on the other side of the aisle should propose significant changes in the policies and procedures of the Federal Reserve which is widely credited by thoughtful experts for at least part of the improvement.

Now obviously further improvement is possible and interest rates could and should decline further. But the key to this problem appears to us to lie in the area of fiscal policy, including particularly a reduction in budgetary deficits through a containment of expenditures. In proposing to intervene in the conduct of monetary policy, it seems to us, you are addressing a non-problem. The real problem lies much closer at home.

Welcome again, Congressman Wright. We are looking forward to your testimony.

Mr. HANSEN. I would like to just say this, despite what I say in the opening statement, Mr. Wright, about the fact that you haven't heard it, about the fact that I feel that there are a lot of things good about the economy, interest rates down, inflation rates down and a number of things, and I question the need at this time for legislation such as you are proposing, because of some of those indications, not to say that I don't very substantially agree with you on a lot because of what happened and give the Federal Reserve too much credit for the ups that we are having now.

And I think it would be rather short in our thinking because I think a lot of us remember the type of monetary policy that was going on that caused us to hit that deep bottom that you talked about, and I think that this discussion today and any day on what to do to prevent this from happening again or even give it additional correction is certainly timely and I welcome this opportunity to discuss these matters with you.

Thank you, Mr. Chairman.

Chairman FAUNTROY. I thank the gentleman.

Our majority leader does have a time problem. Thus I will limit my inquiry to one question and submit the others for your comments later, as I hope, will other members.

Mr. HANSEN. Yes, sir.

Chairman FAUNTROY. You have mentioned a very revealing chart with suggestions as to how we may lower that Federal deficit. You have alluded to the fact that, despite our best efforts, this administration seems prepared to have deficits of $200 billion or more for the rest of this decade. If that in fact should occur, Mr. Majority Leader, what should the Federal Reserve do? Should it seek to maintain lower real interest rates despite the impact on the Nation, and possible long, detrimental effects on employment; or should it try to rescue this administration from its follies by managing the monetary system in a manner which is complementary, meaning, therefore, higher interest rates and tight money. Or are there, in your views, other alternatives which might be employed in addition to these two?

Should we have a managed credit policy such as credit rationing, that would come into play automatically instead of simply relying on interest rates to ration credit. If we were to have this rationing system, one of the questions we would have to answer, I think, is whether there is a difference between being denied credit because of the interest rates, or being denied credit because one doesn't have the correct credit ration ticket.

Mr. WRIGHT. Well, I am aware that fine-tuning from day to day of the money supply and monetary policy is something that must be conducted by a group smaller and less desperate than the Congress. I am not foolish enough to think we in the Congress could make those day-to-day decisions.

We have to repose that responsibility somewhere. I am aware of the difficulties which we have placed upon the Federal Reserve Board in achieving those objectives. My concern is that I think too many of the members of the Federal Reserve Board have their dealings almost exclusively with the banking community, and with the biggest of the banks.

I don't even think they are generally attuned to the small town banks, the individual home-owned banks, locally owned banking institutions. It is only natural that people with a relatively narrow scope of acquaintances and association would tend to resolve things in a way that would seem beneficial to those people whom they know.

I have had some of the people in the past who have been associated with the Federal Reserve Bank say, "I don't know anybody who can't get a job if he really wants one." You know, the thing about it is, I believe they are telling the truth. They just don't know anybody who needs a job, but you do, and so do I, and I think Mr. Hansen knows some people who need a job, and Mr. Patman has people who would like nothing better than to have a job. They don't know anybody being hurt, but I do, and Mr. Patman and you do, and Mr. Hansen does.

It seems to me that we really have a serious responsibility to bring these deficits down. I don't know the degree to which higher deficits automatically dictate high interest rates. I know that was a theory that was being espoused about 2 or 3 years ago when our

deficit was some $47 billion. They said that is why interest rates are high, we have high deficits. Now we have a $210 billion deficit.

Some of those same people are saying deficits don't have anything to do with the interest rates. Well, I really don't know how much they do. I am inclined to think that they provide an excuse for high interest rates to those who want an excuse.

I am not at all certain that you should assume either that the amount of money supply and the interest rate must, of necessity, be responsive to one another, that you necessarily have to have a higher interest rate to ration credit when you have an adequate inflow of the money supply.

If you ration credit by high interest rates, you just squeeze out the guy who needs it, and you put the point to the only fellow who can get the credit, it is the person who does not really need it.

It seems to me we just ought to start with the idea that it is the policy of this Government that we are not going to have interest rates any higher than 10 percent, anywhere for anything, and that that includes points, that we are not going to allow any points.

I think we ought to have a national usury law. That may seem an extreme policy, but every society in the history of the human race, going back to the Biblical days of the Old Testament, has been enjoined against the evil and greed of usury.

It is a wicked thing and a cruel thing to impose upon those average people and the people at the bottom of the economic spectrum. Every State in the Union, practically, voted, had for many years a 10-percent usury law and they have been forced by these large Federal forces to raise those usury ceilings.

Texas has raised the ceiling to 24 percent. That is meaningless. You might as well abolish it, and insofar as that concerns the Federal Government, it pretty well has. I think it is a vicious cycle, in which high interest rates create high unemployment, high unemployment contributes to high deficits, no doubt about that, that is a well-established fact. High deficits then, in turn, provide an excuse for high interest rates.

Somewhere we have got to break into that cycle. I think we ought to attack it on all fronts. Doing things to get people off unemployment rolls back to work, we ought to be doing things to bring interest rates down. If it means mandating it by Congress, if that is what it takes, we ought to do that, and we ought to be doing things to bring the deficits down.

Let me show you how bringing interest rates down will have something to do to help bring the deficit down. You know how much money we are spending this year in this budget? We have got about a $750 billion Federal budget. Do you know how much goes for interest? Approximately $100 billion this year, fiscal year 1983, is being bled from the Treasury to pay interest on Federal obligations.

Well, so there you have a very substantial portion of the deficit. $100 billion this year. Now, if interest rates were back at the level that they were 6, 7, or 8 years ago, we would be reducing the deficit by approximately $30 billion this year, we would be paying about that much less in interest rates and our deficit would be that much lower.

So, it is chickens and eggs. To my mind, the policy of assumable, livable, affordable interest rates, a goal in and of itself, if we are to have a humane social structure, and if we are to have a society that creates economic growth, and if we are to have an intelligent approach to getting this country back on its feet economically.

Chairman FAUNTROY. I thank you.

Mr. Hansen?

Mr. HANSEN. Mr. Wright, when you talk about the responsiveness of the Federal Reserve, I find in some of my investigations as a member of the Banking Committee, that especially some of the Federal units in places like New York, where they get preoccupied with foreign operations that they certainly don't know if someone is employed, it takes some time today to find out that they have jurisdiction over upstate New York or places like this, and your comment regarding the deficits, it may not be an excuse, but it certainly leaves us vulnerable for the money market forces for anybody else to play the interest rate game on you, because they can always come back, right now you have lower interest with a big deficit, but you always have that threat held over you that tomorrow it could be higher interest because of the big deficit.

I certainly share your concern over what that deficit is doing to interest rates and potential interest rates.

Chairman FAUNTROY. Mr. Patman?

Mr. PATMAN. Thank you, Mr. Chairman.

I just want to tell the majority leader how much I admire his statement here today and how much I appreciate the sentiments he has voiced. It is just rare that someone in the Congress and in politics, in government, speaks out against these enormously high interest rates, and the danger they are doing to the country.

Certainly you don't find many bankers. I think it is regrettable that these small town bankers don't feel like they are free enough to speak out because I know a lot of them feel that they are being damaged and their communities are being damaged, and people among whom they live are being damaged by the policies of the Fed, you don't find many businesses that will speak out, many businessmen, because apparently they are thinking about the next time they have to go down to try to borrow some money.

But we need more people like you, Mr. Majority Leader, to speak out on these, and we appreciate the fine testimony you have given us here today. I am a little concerned about your mentioning that 10 percent limit on interest as being picked up, but it appears as the primary focus of your testimony here today.

I am sure it wasn't, although it was a very good sentiment, and an important one. And a good statement, but your bill that you are testifying in behalf of is one of great merit. I think it sets a tone that we need, sets some direction.

We need to get away from the pure, cold-blooded, refrigerated Federal Reserve policy involving simply looking at these so-called monetary aggregates or credit aggregates or whatever else they say they are looking at in order to impose upon the American people the impression of high interest rates; it is hurting not only us, but the entire free world.

Thank you, sir.

Mr. WRIGHT. Mr. Patman, I thank you very much. Let me hasten to say to anyone who might have misunderstood, that I wasn't here primarily to advocate a 10-percent usury ceiling, that is not the bill that is before us, although I would vote for one, if we had one.

But I do believe that some very stringent measures may be necessary if this doesn't work. I would like to try the bill before us first, and see if we can, by that means, influence a steadier, more predictable, gradual lowering over the years of interest rates and long-term interest rates so we can encourage people to make those long-term investments that will create the robust economic recovery all of us, Democrat and Republican alike, desire.

Mr. PATMAN. And certainly, you would like to see that 10-percent usury limit set by conscience, if not by statute.

Mr. WRIGHT. I would have, but I haven't seen it set by conscience. If conscience doesn't get affected by wearing a hair shirt now and then, it may have to be done by statute. We may be nearing the point where we have another critical watershed similar to that in which Andrew Jackson had to confront the Bank of the United States.

I hope we don't have to come to that kind of a traumatic landmark in our Nation's history but, one is going to be done or the other is. Either the public interest is going to prevail or the public is going to be dictated to and just about controlled by the financial interests.

Mr. PATMAN. I don't see any evidence that the Administration is likely to confront the big banks or the Federal Reserve; they just seem to utter some mild criticisms from time to time and back up almost immediately.

Chairman FAUNTROY. And they start patting the Fed on the back.

Mr. WRIGHT. I was not suggesting there was very much similarity between Ronald Reagan and Andrew Jackson.

Chairman FAUNTROY. You have been more than generous with your time.

Mr. WRIGHT. I appreciate that.

Chairman FAUNTROY. We appreciate your staying this extra time. We have been joined by Mr. Hiler, a member of the committee, and I just want to acknowledge his presence and indicate two things: First, if you have questions, the majority leader has agreed to answer them in writing; and second, it is our hope we will be able to report a bill by the end of the month.

So, thank you very much.

Mr. WRIGHT. Thank you very much, Mr. Chairman.

Chairman FAUNTROY. Thank you.

[Whereupon, at 3:15 p.m., the subcommittee was adjourned.]

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